



## MSME SECTOR IN INDIA - GS III MAINS

Q. Examine the factors leading to the growth of MSME in India and bring out the challenges faced by the sector in India. Suggest measures need to be taken to unlock their full potential and foster inclusive growth. (15 marks, 250 words)

**News:** *MSMEs to organise meeting in Coimbatore to highlight their demands*

### What's in the news?

- The Tamil Nadu Industrial Electricity Consumers Association will organise a meeting in Coimbatore next month to highlight the demands of the Micro, Small and Medium-scale Enterprises (MSMEs) that the Central and State governments have not addressed.

### MSMEs:

- MSME (Micro, Small, and Medium Enterprise) are regulated under the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006.
- Earlier, MSMEs were categorized based on the amount invested in plant and machinery/equipment.
- With revised regulations effective from July 2020, annual turnover has also been added as a criteria.

### Classification Criteria of MSMEs:

#### 1. Micro Enterprise:

- Investment in Plant and Machinery or Equipment is less than INR 1 crore and Annual Turnover is less than INR 5 crore.

#### 2. Small Enterprise:

- Investment in Plant and Machinery or Equipment is less than INR 10 crore and Annual Turnover is less than INR 50 crore.

#### 3. Medium Enterprise:

- Investment in Plant and Machinery or Equipment is less than INR 50 crore and Annual Turnover is less than INR 250 crore.

### Significance of MSME Sector for India:

#### 1. Boon for Rural Development:

- MSMEs have contributed to the industrialization of rural areas with minimal capital cost, leading to socio-economic growth and complementing major industries.

#### 2. Front Runner in Make in India Mission:

- MSMEs are crucial in making the 'Make in India' initiative successful by adhering to global quality standards and becoming the backbone of the mission.



### 3. Simple Management Structure for Enterprises:

- Compared to large corporations, MSMEs offer a flexible management structure that allows for easy decision-making and efficiency.

### 4. Economic Growth and Leverage Exports:

- MSMEs significantly contribute to India's GDP, accounting for 8% of it. Moreover, they have the potential to create linkages between India's MSME base and larger companies by supplying semi-finished and auxiliary products.

### 5. Social Inclusion:

- According to the Annual Report of the Ministry of MSMEs (2021-22), the socially backward groups owned almost 66.27% of MSMEs.
- In rural areas, almost 73.67% of MSMEs were owned by socially backward groups.

## Factors Leading to the Growth of MSME in India:

### 1. Promoting Innovation and Competitiveness:

- MSMEs provide opportunities for aspiring entrepreneurs to develop innovative products, fostering competitiveness and driving growth.

### 2. Government Campaigns:

- Initiatives like Make in India, Startup India, Skill India, and Digital India aim to level the playing field and promote increased production.

### 3. Adapting to Labor Market Trends:

- Younger generations are moving away from agriculture and entering businesses, creating employment opportunities.

### 4. New Definition:

- The new definition and classification eliminate the need for frequent inspections and provide transparency and impartiality.

### 5. Digitization:

- Growing internet use and digital payment comfort, supported by B2C e-commerce firms, facilitate MSME sector expansion.

### 6. Collateral-Free Financing:

- Partnerships with modern non-banking finance enterprises offer MSMEs easier access to financing.

## Challenges Faced by MSME Sector in India:

### 1. Financial Constraint:



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- Access to timely finance remains an issue, with only 16% of SMEs having such access, leading to heavy reliance on their own resources.

## 2. Lack of Innovation:

- MSMEs struggle with outdated technologies and low productivity due to a lack of entrepreneurial spirit and innovation.

## 3. Majority of Small Firms:

- Micro and small businesses constitute over 80% of MSMEs, but they often struggle to take advantage of government initiatives.

## 4. Communication Gaps:

- Lack of awareness hinders their access to emergency credit lines, stressed asset relief, equity participation, and fund of funds operations.

## 5. Lack of Formalization Amongst MSMEs:

- A significant number of MSMEs in India operate without formal registration, leading to credit gaps and limited access to support.
- Approximately 86% of manufacturing MSMEs remain unregistered, hindering their ability to avail themselves of benefits and services.
- The Goods and Services Tax registration rate for MSMEs is relatively low, with only about 1.1 crore entities registered.

## 6. Mounting NPAs in MSMEs:

- The MSME sector has witnessed a rise in non-performing assets (NPAs) during recent times.
- As per the Reserve Bank of India (RBI), bad loans of MSMEs account for 9.6% of gross advances, up from 8.2% in 2020.
- Many MSMEs did not benefit from restructuring schemes and relief packages, aggravating their financial distress.

## 7. Lack of Infrastructure and Technology:

- Inadequate infrastructure and outdated technology pose significant challenges for MSMEs in India.
- Power supply issues, including poor quality and unscheduled cuts, impede smooth operations.
- Insufficient substations, inadequate road networks, Lack of proper transport facilities, ineffective storm water drainage, and limited sewage treatment plants further hamper growth.

## Measures Need to be Taken:

### 1. Regulatory Mechanism:

- Establishment of an independent body to safeguard MSMEs from economic shocks and promote their growth.



## 2. Supply Chain Finance:

- Provide MSMEs with access to working capital through technology-enabled platforms and encourage Zero Defect & Zero Effect practices.
- Enables MSMEs to invest in expansion, procure raw materials, and update inventories.

## 3. Linking Government Projects with Local MSMEs:

- Foster domestic manufacturing capabilities by leveraging public procurements and projects.
- Close linkage between initiatives like Sagarmala, Bharatmala, and industrial corridors with the MSME sector.
- Promotes collaboration between the government and MSMEs for enhanced growth and employment opportunities.

## 4. Industry-Academia Channel:

- Strengthen collaboration between government, industry, and academia to identify manufacturing requirements and develop a skilled workforce aligned with Industrial Revolution 4.0.
- Bridge the gap between education and industry needs, fostering innovation and driving technological advancement.

## 5. Dedicated MSME Portal:

- Creation of a dedicated portal for MSME formalization and registration to enhance transparency and reduce fraudulent activities.
- Use of Aadhaar or PAN as a unique identifier for compliance purposes and simplification of the annual registration process.

## 6. E-Courts for Dispute Resolution:

- Strengthen the NCLT framework by introducing alternative methods of debt resolution, including e-courts.
- Faster resolution of cases to reduce financial burdens on MSMEs and enhance their overall competitiveness.

## 7. Incentivizing Digital Adoption Within the Sector:

- Provide incentives for digital adoption, especially in disruptive technologies like artificial intelligence and quantum technology.
- Encourage innovation, efficiency, and competitiveness within the MSME sector.

MSMEs are the backbone of the Indian economy, providing resilience against global economic shocks. To revive the economy and address the challenges faced by MSMEs, a comprehensive approach is required, including easing regulatory burdens, fiscal support, and ensuring a level playing field. By prioritizing the interests of MSMEs, India can unlock their full potential and foster inclusive growth.